



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m. December 16, 2003. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Dennis Johnson
Susan K. Simmons
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Mike O'Leary
Janet Becker-Wold
Rod MacKinnon
Bill Palumbo
Drew Black
Casey Maslonka
Brian McGrath
Charlie Brown
Jim Coleman
Doug Bates
Chris Growney
Mike Boren
Roger McComber
Robert Schmidt
John Meier

Callan
Callan
Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
REAI
REAI
Clearwater Advisors
Clearwater Advisors
Clearwater Advisors
Clearwater Advisors
Milliman USA
SIS Inc.

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|-------------------|------------------|
| Paul Harte | SIS Inc. |
| Barry Dennis | SIS Inc. |
| Dona Van Trease | IPEA |
| Jim Shakelford | IEA |
| John Watts | Veritas Advisors |
| Janet Orendorf | ISBA |
| Richelle Sugiyama | PERSI |
| John R. Doner | PERSI |

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the November 18, 2003, regular meeting of the Retirement Board with the clarification that the COLA motion passed "with a vote in favor by Chairman Olson."

PORTFOLIO

Monthly Portfolio Update: Mr. Maynard discussed his investment report dated December 14, 2003 which was an update from a version previously provided to the Board. In the report and in his discussion, Mr. Maynard noted the following:

Even though the fund has risen 3.1% since the last Board meeting, the market appears to have stalled for the time being. The continued good news on the earnings and economic front appears to be reflected in the current pricing, including the spectacular rise in GDP in the third quarter, the increasing expectations of a robust fourth quarter, a good start to the holiday shopping season, and the first indications of a healthy job market. The total PERSI fund is now up 11.7% for the fiscal year to date and 22.3% for the calendar year. PERSI is now only 1.8% (\$130 million) below its all time high reached in August of 2000.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing within expectations given the markets.

The emerging markets, international portfolios, global portfolios, and REITs have very good absolute performance, while bonds have the worst. Zesiger, Brandes and Schroders Emerging Markets have the best relative performance for the fiscal year to date, while private equity and Mountain Pacific have the worst. PERSI's overall performance continues to outperform the underlying policy benchmarks (the indexed returns).

Mr. Maynard reviewed how our investment allocations and policies have benefited the fund. Investments in TIPS, Global Equity, Emerging Markets and REITS all added to the performance of the fund. Mr. Maynard discussed individual manager performance.

Mr. Maynard also provided a monthly review of the DC plan. Mellon International Stock in the Choice Plan is underperforming. Trustee Johnson asked if market timing by a few individuals is lowering investment returns for all other investors in that fund. Mr. Maynard confirmed that as evidenced by Mellon Capital Management's new accounting which isolates these costs and charges them separately back to the respective fund.

Mr. Maynard told the Board that the Endowment Investment Board has been pulled out of the WorldCom lawsuit by the Attorney General's Office. He also noted that as notified and agreed, an investor group, including Cascade Investments, the investment arm of Bill Gate's, has been completed the purchase of a 40% share in Hamilton Lane. Since inception, the Clearwater Advisors cash account has gained \$500,000 for PERSI over what we would have earned if we had remained with the Mellon STIF Account.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Roger McOmber has joined Clearwater Advisors as an energy market and utility analyst. Managers expect a gradual rise in interest rates. Bill Palumbo from Mountain Pacific and Brian McGrath from D.B. Fitzpatrick & Co. also share concerns that there is a market imbalance, wherein the stock markets have priced in the increased expectation for economic growth; however, this same expectation is not priced into the bond market.

FISCAL

Update and Expense Reports: Financial Officer James Monroe had previously provided a memorandum dated December 9, 2003 to the Trustees which summarized current fiscal items of interest. Negotiations with Mellon Bank regarding fees for custody services are very nearly complete. He plans to discuss the agreement at the January 2004 meeting. The annual report is at the printers. Mr. Monroe reviewed the details of the Administration and Portfolio expense reports.

LEGAL:

Appeal of Director's Decision: Deputy Attorney General Goodsell had provided a memorandum dated December 10, 2003 to the Trustees regarding the new appeal and consolidation of the Barbara Kramer Appeal. By motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the staff recommendation to consolidate the appeal of the Executive Director's August 26, 2003 decision with the current contested case number CC03-01, and that the matter be returned to the Board for consideration after a recommended decision is issued by the hearing officer in that matter. Mr. Goodsell said settlement negotiations are ongoing; if they are not successful, the consolidated matter will proceed to hearing.

Applewhite Final Decision and Order on Remand: The Board members had previously received a December 2, 2003 memorandum from Deputy

Attorney General Goodsell on this matter. He reviewed the facts of the order. By motion duly made by Trustee Johnson and seconded by Trustee Simmons and passed unanimously, the Board issued the proposed FINAL DECISION AND ORDER ON REMAND adopting both of the recommended decisions of the hearing officer in the contested case of In the matter of the disability retirement application of Roy Applewhite, Case No. CC-02-02.

EXECUTIVE DIRECTOR

Retiree Return to Work Legislation: Executive Director Alan Winkle had provided background material on this issue in his December 8, 2003 memorandum to the Board. Currently, PERSI statutes provide a "bright line" of who is retired and receiving a retirement benefit and who is an active member contributing to the system. A shortage of specialized teachers in rural areas brings this controversial issue forward this year. The Idaho School Board Association (ISBA) had asked to address the Board on this issue. The ISBA was represented by John Watts of Veritas Advisors. Trustee Sullivan disclosed for the record that he works with Mr. Watts at Veritas Advisors.

Mr. Watts told the Board that the "No Child Left Behind" law requiring compliance by 2006 in order to receive federal funds was a main reason this legislation is being proposed. ISBA is looking for a short term opportunity to bring back "highly qualified" teachers from retirement on a year-to-year basis until non-retired qualified teachers can be hired. Trustee Johnson said he sympathized with the issue of finding qualified teachers. Third party temporary agencies are popularly used in private industry to supply critical employees. He asked if ISBA has considered using this method of hiring the needed teachers to avoid the re-employment issue. Mr. Watts said schools have always employed their own substitute and temporary teachers.

Trustee Ahrens said it is not appropriate for the PERSI Board to take any action on this issue, as this is a policy decision which must be made by elected legislative officials. She asked for clarification as to why ISBA was coming before the Trustees. Mr. Watts said it was to advise the Board of the pending legislation and to discuss the best approach for accomplishing it. Chairman Olson said the Board has always directed staff to supply all necessary resources to educate the legislators and work with constituents. Only on very rare occasions has the Board supported or opposed legislation and they do not feel it would be appropriate on this issue.

Trustee Johnson questioned whether this legislation would be a "slippery slope" where other PERSI member groups, perhaps firemen or police, would also identify critical needs to meet federal mandates and we would find more "double dipping" by retired PERSI members. Mr. Watts said he would recommend a tightly written statute with a sunset clause to meet this objection. There was discussion of how job descriptions might even be written to fit only a specific person and circumvent the intent of any special legislation. Trustee Simmons clarified that allowing the ISBA to address the Board should in no way be construed as the Board embracing the idea. She said the Board is not embracing the idea, but is listening to the concern and making sure that PERSI staff is providing information and data ISBA needs.

Trustee Ahrens said that there are huge shortages in other public service areas such as law enforcement. With early retirement incentives already in place for education employees, this new incentive providing the ability for some to return to work may raise a fairness question across government employee ranks. Mr. Watts noted that teachers taking the early retirement incentive would not qualify for a return to work under the proposed legislation.

The proposed legislation would have the school district pay the teacher's salary and have PERSI pay the full retirement benefit. Trustee Sullivan asked whether ISBA in consideration of solving this problem has discussed a self-funding mechanism to enhance the pay in these critical positions. Mr. Watt said the school districts would not be able to afford that. Trustee Sullivan said he does not see the retirement system as a supplemental income system, but that it is designed to provide a secure retirement for our members. Mr. Watts told the Board that Executive Director Winkle has been very helpful in providing information on this issue.

DC Market Timing Policy: Mr. Winkle had provided a memorandum dated December 12, 2003 with background on the effect on the PERSI Choice Plan from market timing by members of the plan. At the November meeting, staff was directed to bring recommended action to the Board to address this issue. By motion duly made by Trustee Johnson and seconded by Trustee Sullivan, the Board unanimously adopted amendments to the PERSI Choice Plan Investment Policy including market timing restrictions. Participants in funds being negatively affected by market timing will receive letters explaining the changes. Staff will bring alternatives to the January Board meeting for restrictions that discourage rapid trading and market timing by participants, and their associated costs to the fund.

Status Update: Mr. Winkle said the actuarial contract with Milliman is under negotiation. He expects to bring that to the Board at the January meeting. We are also attempting to have two items added to our Legislative Packet for the coming session. One will clarify how partial withdrawals are handled since federal legislation has changed; the other removes the requirement for social security information on divorce documents.

Recess: There being no more regular business before the Board, the Chairman recessed the meeting at 10:10 a.m. in preparation for consultant finalist interviews. Chairman Olson thanked Trustees Sullivan and Simmons for the time they spent reviewing the applications.

CONSULTANT INTERVIEWS

At 10:25 a.m., Investment Officer Richelle Sugiyama reviewed the process of selecting the finalists. Trustees had received copies of the original RFP responses, including supplementary information and sample reports, and a summary of the finalists. Mr. Maynard said the selected consultant would report to the Board as needed, possibly every couple of months. PERSI will pay travel expenses. Ms. Sugiyama also checked

references on the finalists, including references provided by the applicants and from others in the industry.

Callan Associates: Michael O'Leary and Janet Becker-Wold provided an overview of their organization and insight to their internal processes. They then discussed the PERSI program and offered some initial thoughts on potential priorities and identified areas for enhancement. The Board recessed for a working lunch at 11:55 a.m.

Strategic Investment Solutions, Inc.: At 12:25 a.m., John Meier, Paul Harte and Barry Dennis provided an historical overview of their company. They answered questions from the Board regarding current PERSI investments and changes they might recommend. Mr. Dennis elaborated on the SIS alliance with Frank Russell and the extensive research capabilities that provide depth to manager searches. The interview concluded at 1:25 p.m.

After discussion, by motion duly made by Trustee Sullivan and seconded by Trustee Simmons, the Board unanimously approved the selection of Callan Associates as the PERSI investment consultant, provided an acceptable agreement can be reached. Staff will work with legal consultants to finalize the contract.

Chairman Olson asked what issues the consultants will address first. Mr. Maynard said those were discussed in March and include review of managers and other portfolio restructuring issues. The contract will be an at-will contract with an instant termination clause. Trustees indicated a desire for an investment workshop with the consultant in February or March of 2004. Chairman Olson and Trustee Ahrens asked to see the contract before it is finalized.

Trustee Ahrens commended Ms. Sugiyama on the excellent work on the RFP, the applicant screening and preparation for the Board. Other trustees concurred.

Adjournment: There being no further business before the Board, by motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 1:37 p.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director